

4.2 Audit Report for the 2008/09 Financial Year

The following Audit Report for the 2008/09 financial year was received. The audit opinion by the Auditor- General was a disclaimer which was mainly attributed to the conversion of the accounting standard from IMFO to GRAP. To remedy the situation an audit action plan was compiled which is also attached hereunder.

Management report on the regularity audit and the audit of performance information of the Ubuntu Municipality for the year ended 30 June 2009

Introduction

1. This management report is provided to the accounting officer of the Ubuntu Municipality in connection with our audit of the financial statements and the review of the performance information for the year ended 30 June 2009.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The Accounting officer's responsibilities
 - Significant findings from our audit of the financial statements
 - Financial matters
 - Governance matters
 - Significant findings from our review of the performance information
 - Significant findings from specific focus areas
 - Information on audits conducted other than on the financial statements
 - Investigations
 - Performance audits
 - Special audits
 - Ratings of the audit findings
 - Summary of detailed audit findings
3. Annexure A, B, and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and include management's responses thereto.

The Auditor-General's responsibilities

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of performance information. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.

- Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Evaluating non-compliance with applicable legislation relating to financial matters, financial management and other related matters.
 - Evaluating the appropriateness of controls, systems and processes to ensure the accuracy and completeness of reported performance information.
 - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or performance information, or compliance with all applicable legislation.

The accounting officer's responsibilities

6. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the financial statements in accordance with the Standard of Generally Recognised Accounting Practice issued by the Accounting Standards Board, April 2004.
 - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
 - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
 - Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
 - Monitoring and reporting on performance against predetermined objectives.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records, documents and other matters.
 - Disclosing all matters concerning any risk, allegation or instances of fraud.
 - Accounting for and disclosing related party relationships and transactions.

Significant findings from our audit of the financial statements

Financial matters

Material misstatements not corrected at the date of this report

7. The following represent the material misstatements that arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework. These misstatements were identified during the audit and had not been corrected by management at the date of this report. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Reason for misstatement	Dr	Cr	Root cause(s) (as per table below)
Property, Plant and equipment	Game are not disclosed as part of PPE [EX63]	R240 100		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Game are not disclosed as part of PPE [EX63]		R240 100	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Operating expenses	Creditors list not complete [EX36]	R14 324		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Trade payables	Creditors list not complete [EX36]		R14 324	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property Plant and Equipment	Capital expenditure incorrectly classified [EX39]	R22 340		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Repair and maintenance	Capital expenditure incorrectly classified [EX39]		R22 340	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Receivables	Invoice amount not accurate [EX41]	R2 245		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property Plant and Equipment	Invoice amount not accurate [EX41]		R2 245	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property Plant and Equipment (Machinery)	Mechanical assets not separately disclosed [EX56]	R93 000		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property Plant and	Mechanical assets not		R93 000	CE2, CE5, CA3, CE7, RA1, RA2,

Equipment (Carriage way)	separately disclosed [EX56]			CA4, CA5, CA6, M1, M2, M3
Property Plant and Equipment	Fixed asset register not complete [EX60]	There were no values determine for the assets that could not be traced to the FAR		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Fixed asset register not complete [EX60]		There were no values determine for the assets that could not be traced to the FAR	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Long term investments	Long term deposits should disclosed as non – current assets and should not form part of current assets [EX73] [EX121]	R1 968 253		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Short term deposit	Long term deposits should disclosed as non – current assets and should not form part of current assets [EX73] [EX121]		R1 968 253	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated depreciation	Prior year depreciation not accurate [EX76]	R33 482		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Prior year depreciation not accurate [EX76]		R33 482	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Depreciation 07/08	Prior year depreciation charges [EX80]	R2 168 922		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Prior year depreciation charges [EX80]		R2 168 922	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
DBSA Loan	Opening balance of loan do not agree with loan statement from DBSA [EX86]	R22 630		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Opening balance of loan do not agree with loan statement from DBSA [EX86]		R22 630	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Instalments allocated to interest paid account [EX89]	R271 559		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Interest paid	Instalments allocated to interest paid account [EX89]		R271 559	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Capital replacement Reserve	Interest allocated to CRR and not to the statement of	R7 316		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6,

	financial performance [EX93]			M1, M2, M3
Interest received: P Minies	Interest allocated to CRR and not to the statement of financial performance [EX93]		R7 316	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Impairment Loan P Minies	Loan not recoverable impairment of the loan not recognised [EX95]	R61 509		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Provision for impairment	Loan not recoverable impairment of the loan not recognised [EX95]		R61 509	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus	Capital equipment purchased expensed in the year they were purchased [EX98]	R10 661 259		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Capital expenditure	Capital equipment purchased expensed in the year they were purchased [EX98]		R10 661 559	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Operating expenditure	Grant revenue and expenses were not recognised in the statement of financial performance as and when conditions are met [EX100]	R21 607 637		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Grant income	Grant revenue and expenses were not recognised in the statement of financial performance as and when conditions are met [EX100]		R26 703 204	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property plant and equipment	Grant revenue and expenses were not recognised in the statement of financial performance as and when conditions are met [EX100]	R5 095 567		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
PAYE, SDL	SDL and PAYE were not submitted within legislative timeframes [EX102]	R5 576		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Creditor: SARS	SDL and PAYE were not submitted within legislative timeframes [EX102]		R5 576	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Unspent conditional grant liabilities	Interest received were allocated to liability account and not to statement of financial performance [EX135]	R562 744		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Interest on external investments	Interest received were allocated to liability account and not to statement of financial performance [EX135]		R562 744	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property plant and equipment	Pumps donated in 08/09 year included in prior years fixed asset register, donation not recognised [EX142]	R86 746		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Donation received	Pumps donated in 08/09 year included in prior years fixed asset register, donation not		R86 746	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6,

	recognised [EX142]			M1, M2, M3
Accumulated surplus	Pumps donated in 08/09 year included in prior years fixed asset register, donation not recognised [EX142]	R86 746		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property plant and equipment	Pumps donated in 08/09 year included in prior years fixed asset register, donation not recognised [EX142]		R86 746	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Impairment of consumer debtors	Blanket provision of the municipality not sufficient [EX151]	R929 903		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Provision for impairment	Blanket provision of the municipality not sufficient [EX151]		R929 903	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Trade payables	Insurance claim not recognised as income [EX153]	R14 725		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property plant and equipment	Insurance claim not recognised as income [EX153]	R68 443		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Revenue: Insurance claim	Insurance claim not recognised as income [EX153]		R83 168	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Revenue: Rental received	Rental received from Hutchinson houses not the municipality revenue [EX154]	R100 809		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Creditor: Hutchinson	Rental received from Hutchinson houses not the municipality revenue [EX154]		R100 809	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Revenue: Sundry income	Pixley ka Seme repayment of prior year expenses paid by Ubuntu municipality [EX157]	R866 400		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Receivable: Pixley ka Seme	Pixley ka Seme repayment of prior year expenses paid by Ubuntu municipality [EX157]		R866 400	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Receivable: Pixley ka Seme 07/08	Pixley ka Seme repayment of prior year expenses paid by Ubuntu municipality [EX157]	R866 400		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Accumulated surplus 07/08	Pixley ka Seme repayment of prior year expenses paid by Ubuntu municipality [EX157]		R866 400	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Personal Expenses	Leave accrual balance not accurate and complete [EX174]	R200 747		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3

Leave accrual	Leave accrual balance not accurate and complete [EX174]		R200 747	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Operating expenses	Recoverability of receivables could not be confirmed [EX179]	R3 962 138		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Receivables	Recoverability of receivables could not be confirmed [EX179]		R3 962 138	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Contributions paid	Contingent liability incorrectly classified [EX191]	R44 684		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Legal Fees	Contingent liability incorrectly classified [EX191]	R23 792		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Interest paid	Contingent liability incorrectly classified [EX191]	R7 708		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Creditors	Contingent liability incorrectly classified [EX191]		R75 884	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Employee cost: Overtime	Overtime incorrectly classified [EX203]	R58 428		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Employee cost: Wages	Overtime incorrectly classified [EX203]		R58 428	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3

8. The following represents the material misstatements that arose from a difference between the **disclosures** in the financial statements and the disclosures required by the financial reporting framework. These misstatements were identified during the audit and had not been corrected by management at the date of this report. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Disclosure	Amount R	Root cause(s) (as per table below)
Inventory	Inventory were not disclosed GRAP 12 [EX31]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Gains on disposal of assets	Accounting profit not calculated [EX42]	The municipality do not have reliable systems in place to determine the	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3

		misstatement	
Investment property	Investment property not separately disclosed [EX46]	R7 552 600	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Operating expenditure	Finance leases not identified and classified [EX55]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Cash and bank	Standard Bank balances disclosed as part of the petty cash [EX65]	R210 994	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
MSIG Grant	Grant disclosed in note not accurate [EX103]	R15 000	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Irregular expenditure	Irregular expenditure not disclosed in the financial statements [EX44], [EX119], [EX159], [EX212]	R2 269 006	CE2, CE5, CA3, CE7, RA2, CA4, CA6, M1, M2, M3 CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Fruitless and wasteful expenditure	Fruitless and wasteful expenditure not disclosed in the financial statements [EX22], [EX28], [EX33], [EX110],[EX123]	R17 120	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Audit fees note	Disclosure not complete, internal audit fees not disclosed [EX133]	R98 304	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Long term receivables	Long term receivables are not disclosed as non current assets [EX136]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Property plant and equipment	Reticulation pipes not complete [EX140] [EX139]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Prior year error disclosure	Required by GRAP 3 not included in financial statements	Awaiting final AFS from the municipality	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Employee benefits	Medical obligation and long term service bonuses not disclosed [EX164]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Financial risk management	Financial risk management not disclosed in the financial statements required by IFRS 7 [EX165]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Financial instruments	Disclosure are not in accordance IAS 39	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Comparative figures	Comparative figures not restated with the first time implementation	The municipality do not have reliable systems in place to determine the	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5,

	of the GRAP standard [EX209]	misstatement	CA6, M1, M2, M3
Subsequent events	Subsequent events non adjustable not disclosed [EX210]	The municipality do not have reliable systems in place to determine the misstatement	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Revenue – other income	Material classes of similar items not disclosed separately GRAP 1 [EX211]	R11 886 330	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Revenue – general expenses	Material classes of similar items not disclosed separately GRAP 1 [EX211]	R15 098 489	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Unauthorised expenditure	Unauthorised expenditure not disclosed in the annual financial statements	R312 579	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3

9. The following misstatements were as a result of the auditor not being able to obtain sufficient appropriate audit evidence, due to the documentation or information requested not having been made available by management:

Financial statement item	Reason for misstatement	Amount of misstatement	Affected assertion	Root cause(s) as per table below
Rental received	Information not obtained [EX181]	R36 000	Co, Ac	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
Fruitless and wasteful expenditure	Information not obtained [EX198]	R15 250	Ac, Cl, Ex	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
VAT	Information not obtained [EX193]	The municipality did not perform a VAT reconciliation for the year	Ac	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3
VAT	VAT return 30 June 2009 do not agree with general ledger balance [EX204]	R39 336	Ac	CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3

10. The following misstatements were identified during the **prior year audit** and had not been corrected by management at the date of this report. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Reason for misstatement	Dr	Cr	Root cause(s) (as
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		R	R	per table below)
Accumulated surplus	Prior year: Control account were cleared to the accumulated surplus account [EX185], The municipality did not correct the misstatement	R1 366 930		CE2, CE5, CA3, CE7, RA1, RA2, CA4, CA5, CA6, M1, M2, M3

Material misstatements corrected during the audit

11. The municipality did not correct any material misstatements up to the date of this report arising from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework.

Legend	
CE = Control environment (ISA 315.14(b) and A69-A75)	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and security of the data.	2
Manual or automated controls are not designed to ensure that the transactions occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Reviews by internal audit, the audit committee or self-assessment are not evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Going concern

12. While the municipality has prepared financial statements on a going concern basis, there are a number of indicators that its financial sustainability is under threat. These include the following:

- The average debtor's payment period has deteriorated from 66 to 232 days and an impairment loss of R230 000 in respects of doubtful debts was made by the municipality. [EX104], [EX151]
- The council approved on 19 August 2009 the write off consumer debtors amounting to R7 437 307. The municipality are not able to collect the money from the consumer debtors, the consumer debtors consist of indigent consumers and consumers which can not be identified by the municipality. [EX151], [EX104],
- The municipality did not have a loss from operations for the current and prior years.
- The payment period of creditors has gone from 10 days to 12 days, the ratio are still in line with Section 65 (2 (e) of the MFMA
- Salary deductions were paid over to the Receiver of Revenue for the full year, the deductions were not paid within the timeframes prescribed by SARS and penalties and interest was charged for the late payment of the deductions [EX102], [EX114]
- Loan repayments to the DBSA are made for the arrears amount of the loan, interest of R143 183 were capitalised against the arrears portion of the loan. [EX90]

Qualitative aspects of accounting practices

Amendments to the applicable basis of accounting

13. The municipality implemented the Generally Recognised Accounting Practices (GRAP) financial reporting framework for the year under review. Implementation of this Standard requires a change in accounting policy (GRAP3) and the municipality had to retrospectively restate the figures disclosed under the previous reporting framework, IMFO.

Selection of accounting policies

14. The municipality were required by the statements of GRAP to change the accounting policies from the previous year, the municipality were required to implement the change retrospectively as required by GRAP 3.

15. The municipality opted to take advantage of Transitional Provision 4 and 5, issued by the Accounting Standards Board, March 2009.

The accounting policies adopted by the municipality were not in accordance with the Statements of GRAP.

Accounting estimates

16. The municipality made the following significant estimates for the year ending 30 June 2009:

- a. The municipality assessed the condition of all assets at 30 June 2009. The estimate useful lives of the assets were determined using the Local government capital asset management guideline, issued by National Treasury.
- b. The municipality revaluated their property, plant and equipment for the year ended 30 June 2006 using the depreciated replacement cost method, GRAP

17. The first time implementation of GRAP requires retrospective application of the standard and therefore the revaluation was done 30 June 2006.

Financial statement disclosures

17. There were inadequacies identified in the accounting policies and disclosure as reported in paragraph 8, 19, 27, 28, 29, 30, 31, 41 and 42 of this report.

Accounting policies

18. The accounting policy adopted by the municipality are not in accordance with the applicable financial reporting framework [EX59], [EX77], [EX71], [EX83], [EX138]

Related matters

19. The municipality assessed the condition of all assets at 30 June 2009. The estimate useful lives of the assets were determined using the Local government capital asset management guideline, issued by National Treasury. The standard of GRAP requires the municipality to assess the useful lives of their assets on an annual basis and if there is a difference in the estimate the municipality shall account for the change as a change in estimate as required by GRAP 3 of the accounting standard.

Material losses/impairments

20. The municipality did not escalate their rental agreements with third parties and therefore suffered a loss of income on rental agreements amounting to R30 263 during the year under review. [EX35], [EX137]

21. The municipality impaired the consumer debtors with R260 000 for the year under review. The prior years impairment balance were restated with R3 900 000 (2006/07) and R1 724 979 (2007/08). The municipality did not assess the consumer debtors at year end as required by IAS 39, paragraph 63 and 64 and the municipality could not provide us with supporting documentation supporting the impairment of R14 000 000 disclosed in the annual financial statements. [EX151]

22. The municipality was not able to collect the money owing to the municipality from a previous councillor who is no longer serving on the Ubuntu Municipal Council. According to the loan agreements he should pay the municipality R500 per month including interest. The municipality did not take any steps to recover the amount due, R61 509. [EX13], [EX94]

23. The municipality are not able to collect money due from councillors as the municipality impaired councillor's loans with R63 650. [EX14], [EX94]

24. The municipality took a decision of 9 August 2009 to write off consumer debt amounting to R7 437 307, the municipality made a provision for impairment of R14 000 000 and therefore did not identify and disclose the subsequent event after the reporting date as required by the standard [EX210]

The municipality overspend on capital projects amounting to R3 962 138 (note 11 to the financial statements), the amounts are disclosed as a receivable, the recoverability of the receivable could not be confirmed [EX179]

Unauthorised/fruitless and wasteful/irregular expenditure

Unauthorised expenditure:

25. The municipality could not provide us with unauthorised expenditure reconciliation per sub – program of the municipality [EX181]
26. Unauthorised expenditure was identified during the year amounting to R312 579. The unauthorised expenditure is unconditional grant money used for operating expenditure of the municipality. The municipality did not disclose the unauthorised expenditure identified in the annual financial statements. [EX125]
27. The municipality had an overspending on capital projects amounting to R3 962 138. The recoverability of this overspending could not be determined. The municipality disclosed the over spending on the projects as part of other debtors, note 11 to the annual financial statements. The municipality should have expensed the amount in the year under review. [EX179]

Fruitless and wasteful expenditure:

28. Fruitless and wasteful expenditure were identified during the year amounting to R17 120. The fruitless and wasteful expenditure are interest charges for late payment of supplier accounts. The municipality did not disclose the fruitless and wasteful expenditure identified in the annual financial statements. [EX22], [EX28], [EX33], [EX110], [EX123]
29. The municipality did disclose fruitless and wasteful expenditure of R15 250 in the annual financial statements, note 29.2 and supporting documentation supporting the disclosure could not be obtained from the municipality. [EX198]

Irregular expenditure:

30. Irregular expenditure were identified during the year amounting to R2 269 006, the irregular expenditure are procurement processes not followed. The municipality did not disclose the irregular expenditure identified in the annual financial statements. [EX44], [EX119], [EX159], [EX212]

Budgetary control

31. The municipality overspent on capital projects (R3 962 138) during the year, overspending where financed through own revenue and there are no certainty if the municipality would be able to recover the money [EX179]. The unauthorised expenditure reconciliation of the municipality per sub - program was not made available to us for audit purposes [EX181]
32. The municipality also transferred conditional grant money (R312 579) from their investment accounts to the primary account of the municipality to finance operating expenditure. [EX125]
33. The overspending and on the capital projects and the use of money for other than the intended purpose will have an impact on the service delivery activities of the municipality.
34. The municipality entered into a loan agreement with DBSA on 3 December 1993, initial loan amount R1 695 100. The total amount of payments made during the year was R271 558, the loan are split into two portions, the loan portion and the arrears portion of the loan. During the year interest of R143 183 were charged on the loan portion and capitalised to the arrears portion of the loan. The capital balance outstanding for the year ended is R1 535 000. [EX90]

Accounting discipline

35. There are no uncleared suspense accounts disclosed in the annual financial statements of the municipality.

Financial indicators/ratios

36. The following are key financial ratios / indicators at the municipality. The indicators are not in line with the expected norms for this type of entity. We recommend that management implement stringent controls to normalise them to ensure the continued effective operation of the municipality.

- Debt collection was calculated at 232 days

- Creditor payments was calculated at 12 days, which are in line with Section 65 (2) (e) of the MFMA

Significant uncertainties

37. There are no significant uncertainties facing the municipality at the date of this report.

Financial reporting systems

38. The municipality does not have reliable information systems for recording and reporting on:

- Completeness of Property, Plant and Equipment [EX60], [EX63], [EX140]
- Investment property [EX46]
- Finance leases [EX55], [EX126]
- Employee benefits [EX164]
- Fruitless and wasteful, unauthorised and irregular expenditure [EX44], [EX22], [EX28], [EX33], [EX110], [EX119], [EX123], [EX125], [EX159], [EX212], [EX181], [EX179]
- Assessment of consumer debtors impairment [EX151]
- Payments after 30 days [EX29], [EX30], [EX37], [EX120]
- Inventory [EX31]
- Contingent liabilities [EX191]
- Performance information [EX15], [EX148], [EX149], [EX150], [EX177], [EX192]
- Subsequent events [EX208], [EX210]
- Separate disclosure of material items [EX211]

Revision of the previously issued financial statements

39. An emphasis of matter will not be included in our audit report; the previously issued annual financial statements were not revised due to subsequent events.

Accounting reforms

40. The following are problems encountered with the first time implementation of the standard of GRAP:

- Accounting policies of the municipality are not developed in accordance with the GRAP accounting framework [EX59], [EX71], [EX77], [EX83], [EX94], [EX138]
- Accounting treatment are not in accordance with the GRAP standards [EX31], [EX180], [EX55], [EX98], [EX100], [EX164], [EX135], [EX153], [EX93], [EX126], [EX89], [EX157], [EX158], [EX46],
- GRAP conversion working papers could not be provided for audit purposes [EX181]
- Retrospective application of the standard required by GRAP 3 were not applied [EX31], [EX180], [EX161], [EX164], [EX46], [EX135], [EX136], [EX180], [EX182], [EX126], [EX202], [EX209]
- Disclosures are not complete and do not comply with the relative GRAP standard [EX31], [EX55], [EX65], [EX72], [EX73], [EX92], [EX94], [EX97], [EX133], [EX161], [EX164], [EX165], [EX46], [EX126], [EX86], [EX87], [EX88], [EX89], [EX121], [EX210], [EX211]

41. In terms of directive 4 and 5 the municipality is required to measure their property plant and equipment; inventory; finance leases; investment property; contingent

liabilities and contingent assets and intangible assets in accordance with the measurement requirement of the applicable GRAP standard, within the next 3 years.

GOVERNANCE MATTERS

Material inconsistencies in other information included in the annual report

42. The annual report was not submitted for auditing and was therefore not subjected to the intended review to determine any inconsistencies with the audited financial statements. [EX15], [EX78], [EX148], [EX149], [EX150], [EX177], [EX192]

Internal audit

43. The internal audit unit did not perform work during the year under review which could be used during my audit performed.

Audit committee

44. The audit committee did not meet prior to the submission of the financial statements for auditing on 31 August 2009, to review the adequacy, reliability and accuracy of the financial statements. The municipality therefore did not comply with Section 166 (2) (a) (iv) of the MFMA.

Management of risk

45. The municipality did not conduct a risk assessment of the year ended 30 June 2009 and are therefore not complying with Section 95 (c) (i) of the MFMA. [EX16]

46. The failure to conduct a risk assessment are placing the municipality at risk, the municipality do not identified possible risk areas that might have a direct or indirect impact on the municipality. Possible risks that are not identified are as follows:

- Financial reporting objectives are not develop to enable the identification of risks to reliable financial reporting
- Identify the risk to the achievement of financial reporting objectives
- Actions that should be taken to address risks to the achievement of financial reporting objectives
- Control activities are not selected and developed to mitigate the risk over financial reporting

Prior year observations and recommendations addressed

47. The municipality has implemented adequate controls over the safeguarding of assets, an asset register were compiled and each asset have a unique barcode.

48. The municipality received a qualification in the prior year for an amount of R1 366 930 that was allocated to the accumulated surplus account. The municipality did not restate the comparative figures with the qualifying amount correcting the prior year qualification. [EX185]

49. The action plan for prior year audit findings was requested and the municipality could not provide us with an action plan to address the unresolved findings of 07/08 financial year. The council meeting minutes of 9 April 2009, states that the council takes note of the audit report 07/08 and no action plan was developed. [EX74]

Unavailability of key personnel

50. Key personnel were available during the course of our audit.

Adequacy and competence of financial reporting personnel

51. The financial department of the municipality have inadequate knowledge of the accounting standards applicable to the presentation of the financial statements. Consequently the municipality had to appoint consultants at a cost of R1 600 000 to prepare the financial statements submitted for auditing.

Unavailability of expected information

52. As indicated in our engagement letter, we agreed that all information requested for purposes of the audit would be submitted within 5 working days of the request by the auditors. Despite this agreement, management did not supply the documentation requested in the following instances:

- Declaration forms completed by the suppliers before they are appointed by the municipality (Information was requested September 16, 2009) [EX181]
- Employee cost reconciliation received from SARS (Information requested September 16, 2009) [EX181]
- Rental agreement entered into with Linear Power (Information was requested October 15, 2009) [EX181]
- External confirmation that the over spending on capital projects will be recovered from MIG and Department of Housing (Information was requested, October 15, 2009) [EX181]
- Working papers supporting the conversion from IMFO to GRAP (Information was requested October 15, 2009) [EX181]
- Unauthorised expenditure reconciliation of the municipality per sub program (Information was requested October 20, 2009) [EX181]
- Written confirmation from the municipal manager with reasons for the over spending on capital projects (Information was requested October 20, 2009)
- Reconciliation to monitor distribution losses (Information was requested August 18, 2009)
- Evaluation process for the awarding of tenders to De Aar Electrical and KVB [EX188]

53. The information requested was still not supplied to us on the date of this report. The non submission of this information will be taken into account when the draft audit report is compiled; the non submission places a limitation of scope on our audit procedures.

54. Management also did not comment on exceptions issued during the course of the audit within the timeframes agreed upon.

Exception report issued	Comments received
Exception report 1 (28 August 2009)	16 October 2009
Exception report 2 (4 September 2009)	16 October 2009
Exception report 3 (14 September 2009)	16 October 2009
Exception report 4 (17 September 2009)	16 October 2009
Exception report 5 (01 October 2009)	16 October 2009
Exception report 6 (9 October 2009)	16 October 2009
Exception report 7 (16 October 2009)	27 October 2009
Exception report 8 (24 October 2009)	Outstanding at date of this report
Exception report 9 (27 October 2009)	Outstanding at date of this report
Exception report 10 (29 October 2009)	Outstanding at date of this report
Exception report 11 (30 October 2009)	Outstanding at the date of this report
Exception report 12 (13 November 2009)	Outstanding at the date of this report

Late submission of financial statements

55. The municipality submitted annual financial statements on August 31, 2009 as prescribed by the Section 126 (1) (a) of the MFMA no 56 of 2009.

Related parties

56. The municipality do have proper control to ensure that related party transactions are identified.

Performance rewards

57. Performance bonuses were paid to senior staff during the year after evaluations were performed and approval from the mayor.

Non-compliance with applicable legislation

58. Non – compliance with the following laws and regulations were identified:

MFMA no 56 of 2003

- Section 115 (b) [EX3], [EX6]
- Section 62 (1)(c) [EX5], [EX16], [EX70], [EX186]
- Section 65 (1)(c) [EX7]
- Section 64 (2) (c), (f) [EX11], [EX13], [EX95]
- Section 62 (1)(d) [EX22], [EX28], [EX33], [EX110], [EX102], [EX114], [EX119], [EX123], [EX125], [EX159], [EX186], [EX188], [EX191]
- Section 65 (2) (e) [EX29], [EX30], [EX120]
- Section 96(2) [EX42]
- Section 63 [EX60]
- Section 9 (a) [EX67]
- Section 70(2) [EX68]
- Section 125 (2) (a) [EX72]
- Section 64 (2)(h) [EX91], [EX99]
- Section 123 (1) [EX100], [EX132]
- Section 97 (a) (b) [EX122], [EX152], [EX156]
- Section 53(1) (c) [EX148]
- Section 64 (2) (b) [EX 155]
- Section 74 (1) [EX187]
- Section 104 (b) [EX187]
- Section 166 (2) (a) (iv)
- Section 32 (4) (a) [EX196]
- Section 54 (1) (a) – (f) [EX199]
- Section 72 (1) [EX201]
- Section 65 (2) (i) [EX212]
- Section 112 [EX212]

Division of Revenue Act

59. The accounting officer did not submit a quarterly performance report for each quarter during the financial year ended 30 June 2009, as required by section 11(3)(b) of the DoRA. [EX15]

Public Office Bearers Act

60. Cash advances were paid to councillors during the year ended 30 June 2009; such payments are prohibited by Section 7(1) of the Public Office Bearers Act. [EX44]

Water Services Act

61. The water services plan of the municipality are still in draft format and were not implemented for the year ended 30 June 2009, as required by Section 15(5) of the Water Services Act. [EX78]

Skills Development Levy Act

62. The SDL payment of the municipality was no paid over to the Receiver of Revenue within seven days after the end of the month as required by Section 6 of the Skills Development Levy Act. [EX102]

Municipal Systems Act no 32 of 2000

- 63. The IDP did not reflect a financial plan, including a budget projection for at least the next three years and the key performance indicators and performance targets determined in terms of Section 26 of the Municipal Systems Act. [EX149]
- 64. The annual performance report of the municipality was not prepared for the year under review, as required by Section 46 of the Municipal Systems Act. [EX150]
- 65. Key performance indicators and measurable performance targets were not set to evaluate performance against, as required by Section 41 (1) (a) of the Municipal Systems Act [EX177]
- 66. The municipality did not measure and reviewed their performance at least once a year, take steps to improve performance of the municipality, establish a process of regular reporting as required by, Section 41 (b) of the Municipal Systems Act [EX177]
- 67. Non compliance with Sections 41 result in non compliance with Section 45 of the Municipal Systems Act, the Auditor General could not audit the results of the performance measures [EX177]
- 68. The municipality's performance management system does not provide for policies and procedures to take steps to improve performance with regard to those development and objectives where performance targets were not met. The performance management system also do not establish a process of regular reporting to the council, other political structures, political office bearers and staff of the municipality as required by Section 41 (d) and 41 (e) of the Municipal Systems Act. [EX192]

Value added tax Act

- 69. Output tax were not paid over to the Receiver of revenue for rental income received, other than the rental of residential properties, therefore the municipality are not complying with the Value added Tax Act No 89 of 1991. [EX137]

Council resolutions

- 70. No Council resolutions were taken specific to the prior year audit and management report. [EX74]

Key governance responsibilities

71. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

No.	Matter	Y	N
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		X
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
4.	The annual financial statements were submitted for auditing as per the legislated deadlines Section 126 of the MFMA.	X	
5.	Key officials were available throughout the audit process.	X	
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. 	x	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	X	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in Section 166(2) of the MFMA. 		X
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. 	X	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 		X
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in [Treasury Regulation 3.2/27.2]/[section 165(2) of the MFMA]. 		x
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in [Treasury		X

No.	Matter	Y	N
	Regulation 3.2/27.2]/[section 62(c)(i)/95(c)(i) of the MFMA].		
12.	Delegations of responsibility are in place, as set out in Section 79/106 of the MFMA.	X	
13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA resolutions have been substantially implemented.		X
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the [entity name] against its mandate, predetermined objectives, outputs, indicators and targets [Treasury Regulations 5.1, 5.2 and 6.1 (departments)/Treasury Regulation 29.1/30.1 (public entities)]/[section 68/87 of the MFMA (municipalities)].		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Achievement of good practice indicators

72. The following good practices are the drivers of audit results. We have indicated our assessment of the municipality's achievement of these good practices, based on the matters included elsewhere in this report.

	Good practice	Y	N
1	Clear trail of supporting documentation that is easily available and provided timeously.		X
2	Quality of financial statements and related management information.		X
3	Timeliness of financial statements and management information.		X
4	Availability of key officials during audits.	X	
5	Development and compliance with risk management and good internal control and governance practices.		X
6	Leadership/supervision and monitoring.		X

It is evident from the table above that specific intervention is required from leadership to address the underlying root causes which result on the good practices not being attained. Management should monitor the progress of and implementation of these specific action plans to address the maintenance of

supporting documentation on a daily basis.

The quality of financial statements and related management information should be addressed by the preparation of interim annual financial statements, supported by proper documentation and subjected to review and audit by the municipal manager, internal audit function, the audit committee and even the external audit function.

Risk assessment processes should be driven and managed by management and should be supported by a proper internal control environment. The control environment should be subjected to specific monitoring and evaluation to ensure that implemented controls are adequate to mitigate the risks identified during the risk assessment.

Leadership, consisting of the MM, CFO and Mayor/Speaker should set the tone for the control environment and facilitate the regular monitoring of daily, monthly, quarterly and annual financial and related management information.

Significant findings from our review of the performance information

73. The following shortcomings were identified in relation to the managing of, and reporting on, performance information:

- There was overall non-compliance with the legislative requirements pertaining to the planning, monitoring, managing and reporting of performance information [EX177], [EX192].
- There was an overall lack of effective, efficient and transparent systems and internal controls regarding performance management and reporting [EX177], [EX192].
- The entity has not reported throughout on its performance with regard to its objectives, indicators and targets, as per the approved integrated development plan [EX148], [EX149], [EX150], [EX177], [EX192].
- Sufficient appropriate audit evidence in relation to the performance information was not provided [EX15], [EX148], [EX149], [EX150], [EX177], [EX192].
- There was no annual report submitted for audit purposes to report on performance information [EX150], [EX177]

Significant findings from specific focus areas

74. There were no sector and horizontal audit procedures performed for the year under review.

Information on audits conducted other than on the financial statements

Investigations

75. There are no investigations completed or in progress by the municipality during the year under review.

Performance audits

76. There was no performance audit conducted since the previous auditor's report.

Special audits

77. There were no special audits performed by the municipality since the last auditor's report was issued.

Rating of detailed audit findings

78. For the purposes of this report, the detailed audit findings included in annexure A to C have been classified as follows:

- Matters to be included in the auditor's report.
These matters should be addressed as a matter of urgency.
- Other important matters – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.
These matters should be addressed within the next 12 months.
- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.
These matters should be addressed at the discretion of the entity.

79. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Appreciation

80. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the Ubuntu Municipality during the audit.

Yours sincerely

Gert Kruger

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